

The Regents of the University of California

**COMPLIANCE AND AUDIT COMMITTEE**

January 25, 2017

The Compliance and Audit Committee met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members Present: Regents Brody, De La Peña, Elliott, Makarechian, Pérez, Sherman, Varner, and Zettel; Advisory member Chalfant; Chancellor Gillman; Staff Advisory Valdry

In attendance: Assistant Secretary Lyall, Interim Chief Compliance and Audit Officer Lohse, Chief Deputy General Counsel Petrulakis, and Recording Secretary Johns

The meeting convened at 1:20 p.m. with Committee Chair Zettel presiding.

**1. APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 16, 2016 were approved.

**2. INTERNAL AUDIT ACTIVITIES REPORT**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Interim Chief Compliance and Audit Officer Lohse provided an update on internal audit director staffing. In November 2016, Adel Flores accepted the position of internal audit director at Lawrence Berkeley National Laboratory. At UC Santa Barbara, Jessie Masek was filling the role of internal audit director on an interim basis. The Santa Barbara campus would soon begin recruitment to fill this position.

Deputy Audit Officer Matthew Hicks reported that as of mid-January all three positions in the newly formed cyber security audit team had been filled, a director and two specialists. This team would provide independent validation of systemwide cyber security initiatives and programs and would assist campus internal audit departments with subject matter expertise. The team had begun a systemwide cyber security risk assessment, using a common industry-recognized framework. As part of this effort, risk assessments were being performed at all the campuses and medical centers by a set of external vendors who had been pre-qualified through a request for proposals process. Mr. Hicks anticipated that a summary report would be completed in June.

Committee Chair Zettel asked if it had been challenging to hire for the cyber security positions. Mr. Hicks responded in the affirmative, noting that hiring was especially challenging in the San Francisco Bay Area, where there is much competition.

Mr. Hicks then reported that the cyber security team was also coordinating a project to perform vulnerability assessment and penetration testing at all campus locations and the Office of the President. The assessments had been completed and results provided to locations for immediate action. The team was working with UC locations to develop Management Corrective Actions that would address control issues. The cyber security team was also engaged with campus internal audit departments in their annual risk assessment and audit planning efforts for the coming fiscal year. The draft internal audit plan to be presented at the May meeting would include cyber security audits.

Committee Chair Zettel asked if any of that report, such as results of penetration testing and updates on UC vulnerabilities, would appropriately be presented at a future closed session meeting. Mr. Hicks responded that results of penetration testing could be presented in closed session.

Mr. Hicks then reported that the internal audit program had coordinated a self-assessment review of the student health and counseling centers. UC had worked with an outside firm with subject matter expertise to develop the self-assessment tool.

Internal audit had also completed fieldwork for the first phase of its operational readiness assessment for the pilot deployment of the UCPath payroll and human resource system. This was the first deployment after the initial deployment at the Office of the President and would include UCLA, the Associated Students UCLA, UC Riverside, and UC Merced. The operational readiness assessment would be completed in four phases. Three of the phases would be prior to the implementation, currently targeted for August 2017, and one phase shortly after. The first phase focused on functional design, test planning and execution, change management, training, local business process design, and conversion.

Internal audit performs quality assurance testing of its own activities, in accordance with internal audit professional standards. In between external quality assurance reviews, required every five years, internal audit performs an annual internal assessment process for effectiveness and adherence to professional standards. The program rotates the focus of this assessment every year between its three lines of service – audits, advisory services, and investigations. The focus in the current year was on investigations, and the assessment showed that the internal audit program is generally in conformance with professional standards.

Chancellor Gillman requested clarification of when the UCPath assessment would be completed. Mr. Hicks responded that internal audit was finalizing the report of the first phase related to the pilot deployment. Internal audit's role was not to ensure completion by an August deadline, but to improve the effectiveness of implementation efforts.

Chancellor Gillman asked if the Committee would be informed about the progress of the readiness assessments before the August implementation and when the Committee might receive an update. Mr. Hicks responded that an update might be provided at the July meeting. Chancellor Gillman reflected on the complexity of implementing UCPATH for academic personnel, whose salaries can be tied to grant funding. The Committee should attend to this matter.

Mr. Hicks then outlined some upcoming activities. The program was initiating its annual risk assessment process, which serves as the basis for development of the annual audit plan for the upcoming fiscal year. The risk assessment process varies from location to location, but generally includes a combination of surveying, interviews, documentation review, and data analysis. In the area of professional development, the internal audit program was planning a two-day health sciences auditor training session for the spring.

Finally, Mr. Hicks drew attention to some notable forthcoming audits to be carried out during the remainder of the fiscal year. One was a planned audit of the UC Fair Wage/Fair Work Plan, which had been put in place in fall 2015, establishing a new minimum wage for UC employees and contractors. This audit would focus on UC suppliers' compliance with the requirements of the Plan. Another systemwide audit would focus on outside professional activities, especially adherence to new policy requirements. A third activity would be a controls review of the UCPATH Center in Riverside.

Committee Chair Zettel asked if the internal audit program brings special training to a campus if deficiencies or control weaknesses are detected there. Mr. Hicks responded that when control issues are identified, it is of paramount importance to verify that a Management Corrective Action plan is in place to address the problem. There may be a need for training or efforts to increase awareness. All UC's internal audit departments reserve a portion of their audit plan for training, either professional development for auditors or training for campus employees on internal controls.

Committee Chair Zettel asked how many of UC's health sciences auditors were new employees. Mr. Hicks estimated that the number of new auditors in this area was relatively small, meaning those with one to two years' experience at UC; most were more experienced. The planned health sciences auditor training session would include training for new auditors as well as advanced components, and information useful to any auditor, regardless of experience, such as updates on the regulatory environment. Mr. Lohse added that similar training was under way for health sciences compliance officers.

Staff Advisor Valdry asked how much of the new cyber security team's time would be devoted to training activities on the campuses. Mr. Hicks responded that the internal audit program would consider this and what the team's role might be in the delivery of training.

Regent Makarechian referred to compliance training provided to UC staff and asked who trains the trainers. Mr. Hicks responded that these trainers are typically outside speakers

with subject matter expertise; for example, speakers who provide UC with updates on the regulatory environment.

Regent Makarechian asked how those outside individuals are trained or receive their information, and if they have some certification. Mr. Hicks responded that he was not aware of any such certification. It was incumbent on the University to be aware of all available resources.

Regent Makarechian asked about procedures in this area, such as a training schedule for trainers, to ensure that new federal or other regulations are not missed. Mr. Hicks responded that there was a monthly webinar series on specific regulatory issues.

Regent Makarechian requested a presentation to the Committee on how UC compliance trainers are trained, with specific information about programs and schedules. Mr. Hicks responded that this information could be provided.

The meeting adjourned at 1:45 p.m.

Attest:

Secretary and Chief of Staff